

C O P Y

X-9168

March 27, 1935.

Honorable Henry B. Steagall, Chairman,
Committee on Banking and Currency,
House of Representatives,
Washington, D. C.

Dear Mr. Steagall:

During my testimony before your Committee on the proposed Banking Act of 1935 (H. R. 5357), I suggested certain modifications of Title II of the bill, and I am inclosing herewith for the consideration of your Committee drafts of amendments to the bill which would effectuate such modifications. There is also inclosed for the consideration of your Committee a memorandum suggesting certain detailed changes in the phraseology of the bill, which are not intended to make any important changes in the substance of the bill but are intended to improve the bill from a technical standpoint.

I also desire to recommend that there be added to Title III of the bill an additional section to correct the anomalous situation whereby State member banks are required to obtain the approval of the Comptroller of the Currency, instead of the Federal Reserve Board, before establishing additional branches; and there is also inclosed an amendment for this purpose, together with a brief explanation of the purpose and effect of the amendment.

I wish to take this opportunity to thank you and the members of your Committee for the courtesy and consideration accorded to me

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while appearing before the Committee, for the keen interest of your Committee in this important legislation, and for the patience with which the members of your Committee listened to my testimony for so many days.

If I can be of any further assistance to you, please do not hesitate to call upon me.

Cordially yours,

(Signed) Marriner S. Eccles

Marriner S. Eccles,
Governor.

Inclosures

K-3168-a

AMENDMENT TO SECTION 201 of H. R. 5357 and S. 1715.

On page 39, line 14, change the comma following the word "directors" to a period, strike out everything thereafter through and including the period following the word "bank" in line 18, and substitute the following:

"His first appointment shall be subject to the approval of the Federal Reserve Board. He shall not take office until approved by the Federal Reserve Board and thereupon he shall become a class C director of the bank for the unexpired portion of the term held by his predecessor as chairman of the board of directors or, if such term was completed, then for the next regular term of three years. At the expiration of such term as a class C director, and of each term of three years thereafter, his continuance in office shall be subject to the approval of the Federal Reserve Board, and he shall cease to be governor at the expiration of any such term unless his reappointment be approved by the Federal Reserve Board. Upon such approval he shall become a class C director for the ensuing term of three years."

Amendment to section 201 -- 2.

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On page 40, line 2, after the period following the word "bank", insert a new sentence reading as follows:

"His appointment and reappointment shall be subject to approval by the Federal Reserve Board in the same manner as that of the Governor."

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AMENDMENT TO SECTION 202 of L. R. 9357 and S. 1715.

On page 41, strike out all of lines 5 to 20, inclusive, and insert in lieu thereof the following:

"Sec. 202. Section 9 of the Federal Reserve Act, as amended, is amended by inserting after the tenth paragraph thereof the following new paragraph:

"Upon application to the Federal Reserve Board at any time prior to July 1, 1937, by any nonmember bank which at the time of such application has been admitted to the benefits of insurance by the Federal Deposit Insurance Corporation under section 12B of this Act, the Federal Reserve Board, in its discretion, in order to facilitate the admission of such bank to membership in the Federal Reserve System, may waive in whole or in part the requirements of this section relating to the admission of such bank to membership: Provided, That, if such bank is admitted with a capital less than that required for the organization of a national bank in the same place and its capital and surplus are not, in the judgment of the Federal Reserve Board, adequate in relation to its liabilities to depositors and other creditors, the Federal Reserve Board may, in its discretion, require such bank to increase its capital and surplus to such

amount as the Board may deem necessary within such period prescribed by the Board as in its judgment shall be reasonable in view of all the circumstances: Provided, however, That no such bank shall be required to increase its capital to an amount in excess of that required for the organization of a national bank in the same place."

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AMENDMENT TO SECTION 203 (2) of H. R. 5387 and S. 1715.

Page 43, line 2, strike out the words "after he reaches the age of sixty-five".

Page 43, line 5, change the period following the word "paragraph" to a comma and insert the following:

"except that, if his term expire before he reaches the age of sixty-five and he decline to accept reappointment, he shall not receive any retirement pay".

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AMENDMENT TO SECTION 204 OF H. R. 5357 AND S. 1715.

On page 43, line 22, immediately before the word "Subsection" insert "(a)."

On page 44, between lines 7 and 8, insert a new paragraph as follows:

(b) Section 11 of the Federal Reserve Act, as amended, is amended by adding at the end thereof a new subsection as follows:

"(c) It shall be the duty of the Federal Reserve Board to exercise such powers as it possesses in such manner as to promote conditions conducive to business stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices and employment, so far as may be possible within the scope of monetary action and credit administration."

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PROPOSED AMENDMENT TO SECTION 205 OF H. R. 5357 AND S. 1715.

Strike out everything commencing with line 11 on page 44 through and including line 17 on page 45 and substitute the following:

"Sec. 12A. (a) There is hereby created an Open Market Advisory Committee (hereinafter referred to as the 'Committee'), which shall consist of five representatives of the Federal Reserve banks. The members of the Committee and an alternate to serve in the absence of each of them shall be elected annually by the governors of the twelve Federal Reserve banks in accordance with procedure prescribed by regulations of the Federal Reserve Board. Vacancies shall be filled in the same manner. The terms of the members of the Committee shall expire at the end of each calendar year, and a person elected to fill a vacancy shall serve for the remainder of the terms of his predecessor. The Committee shall elect its own chairman. Meetings of the Committee shall be held from time to time upon the call of the chairman or upon the call of the Governor of the Federal Reserve Board. Meetings shall be called whenever requested by a majority of members of the Committee or by a majority of the members of the Federal Reserve Board.

"(b) The Committee shall consult and advise with, and make recommendations to, the Federal Reserve Board from time to time with regard to the open-market policy of the Federal Reserve System. The

Committee shall also aid in the execution of open-market policies adopted from time to time by the Federal Reserve Board and shall perform such other duties relating thereto as the Federal Reserve Board may prescribe. The Federal Reserve Board shall consult the Committee before making any changes on its own initiative in the open market policy, in the rates of interest or discount to be charged by the Federal Reserve banks, or in the reserve balances required to be maintained by member banks.

"(c) After consulting with and considering the recommendations of the Committee, the Federal Reserve Board, from time to time, shall prescribe the open-market policy of the Federal Reserve System. Each Federal Reserve bank shall purchase or sell obligations of the United States, bankers' acceptances, bills of exchange, and other obligations of the kinds and maturities made eligible for purchase under the provisions of section 14 of this act to such extent and in such manner as may be required by the Federal Reserve Board in order to effectuate the open-market policies adopted by the Board from time to time under the provisions of this section and each Federal Reserve bank shall cooperate fully, in every way, in making such policies effective.

"(d) All transactions of Federal Reserve banks under authority of section 14 of this act shall be subject to such regulations, limitations and restrictions as the Federal Reserve Board may prescribe."

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PROPOSED AMENDMENT TO SECTION 209 OF H. R. 5357 and S. 1715.

On page 49, commencing with the words "by member banks" in line 1, strike out everything through and including the quotation marks at the end of line 3 and substitute the following:

by member banks in reserve and central reserve cities or by member banks not in reserve or central reserve cities or by all member banks."

X-3-150-a

AMENDMENT TO SECTION 210 OF H. R. 5357 and S. 1715.

Strike out everything commencing with line 7 on page 49 through and including line 8 on page 51 and substitute the following:

"Sec. 24. Subject to such regulations as the Federal Reserve Board may prescribe, any national banking association may make real estate loans secured by first liens upon improved real estate, including improved farm land and improved business and residential properties. The amount of any such loan hereafter made shall not exceed 60 per cent of the appraised value of the real estate; but this limitation shall not prevent the renewal or extension of loans heretofore made and shall not apply to real estate loans which are insured under the provisions of Title II of the National Housing Act. The Federal Reserve Board is authorized to prescribe from time to time regulations defining the term "real estate loans" and other terms used in this section and regulating and limiting the making of real estate loans by member banks, with a view of preventing an unreasonably large proportion of each bank's assets from being invested in real estate and real estate loans, preventing such loans from exceeding a reasonable percentage of the appraised value of the real estate in view of the circumstances existing at the

time and otherwise requiring the banks to conform to sound practices in making real estate loans. On and after the date on which the regulations first adopted under this section shall become effective, no State bank or trust company which is a member of the Federal Reserve System shall make new real estate loans except to the same extent and under the same regulations and limitations as national banking associations are permitted to do so."

X-5163-b

TECHNICAL AMENDMENTS WHICH SHOULD BE MADE IN TITLE II
OF PROPOSED BANKING ACT OF 1935 (H.R. 5357 and S. 1715)

Section 201(a). On page 40, line 15, after the word "person",
insert "or persons".

(Note: This is to make it clear that the Board might distribute the duties of the Federal Reserve Agent among several persons instead of having to confine them to one person.)

Section 201(b). On page 41, between line 4 and line 5, insert a new paragraph reading as follows:

(c) The paragraph of such section 4 which commences with the words "Such board of directors shall be selected" is amended by striking therefrom the words "holding office for three years, and".

(Note: This is merely to eliminate an apparent inconsistency with the sentence commencing in line 23 on page 38. The terms of office of Class A and Class B directors would be prescribed by the last paragraph of section 4 of the Federal Reserve Act, as amended by section 201(b) of the bill, commencing on page 40, line 23 of the bill, and the terms of office of Class C directors would be prescribed by the sentence commencing on page 38, line 23, of the bill. However, if the substitute provision suggested by Governor Eccles which provides for the approval of the Governors of the Federal reserve banks by the Federal Reserve Board every three years is adopted, the amendment here suggested will not be necessary.)

Section 204. On page 44, line 1, strike out the word "such" and insert before the comma following the word "regulations" the words "prescribed by the Board". Also on page 44, line 2, before the word "duties" insert the words "any of its"; after the word "services", insert a semi-colon; and strike out the words "so specified" and the comma following such words.

(Note: In view of the other language of section 11(i) of the Federal Reserve Act, this section of the bill would apply only to duties, functions or services specified in the Federal Reserve Act, and the suggested change would make it applicable to duties, functions or services specified under the Banking Act of 1933, the Clayton Anti-trust Act, and other statutes.)

Section 208:

Page 46, line 21, after the word "retired", insert the words "by Federal Reserve banks".

Page 47, line 22, after the words "Comptroller of the Currency", insert a comma and the following: "under the direction of the Secretary of the Treasury."

Page 48, line 5, strike out the word "numbers" and substitute the word "letters".

Page 48, line 11, strike out the words "by the Federal reserve banks".

Page 48, line 15, strike out the words "and also" and the word "and" and insert commas in their places.

Page 48, line 18, change the period following the words "Federal Reserve Agent" to a comma and add the following:

the words "or any Assistant Treasurer", the words "or Assistant Treasurer", and the words "by the Treasurer at Washington upon proper advices from any Assistant Treasurer that such deposit has been made."

(Note: All of these suggested changes in section 208 are purely technical in character and were suggested jointly by Mr. Wm. S. Broughton, Commissioner of Public Debt, Mr. F. G. Awalt, Deputy Comptroller of the Currency, and Mr. E. L. Smead, Chief of the Federal Reserve Board's Division of Bank Operations.)

Section 210: If Governor Eccles' proposed substitute for this section is not adopted, the following changes should be made in the Bill:

Page 50, line 8, change the first word to "of".

Page 50, line 12, strike out the words "second or subsequent".

(The first change merely corrects a typographical error in the bill. The second change is intended to make it clear that banks may accept first liens on real estate as well as second or subsequent liens as additional security for loans previously made in good faith.)

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ADDITIONAL SECTION TO BE ADDED AT END OF TITLE III
OF H. R. 5357 AND S. 1715

Section The second paragraph of Section 9 of the Federal Reserve Act, as amended, is amended by striking out the period at the end thereof and adding thereto the following words:

"except that the approval of the Federal Reserve Board, instead of the Comptroller of the Currency, shall be obtained before any State member bank may hereafter establish any branch and before any State bank hereafter admitted to membership may retain any branch established after February 25, 1927, beyond the limits of the city, town or village in which the parent bank is situated."

(Note: The sole purpose and effect of the above amendment is to correct a technical error in the Banking Act of 1933 which results in State member banks being required to obtain the approval of the Comptroller of the Currency, instead of the Federal Reserve Board, before establishing out of town branches or retaining such branches upon admission to the Federal Reserve System, if they were established after February 25, 1927. It would neither enlarge nor diminish the right of State banks to establish or retain branches but would merely require them to obtain the approval of the Federal Reserve Board instead of the Comptroller of the Currency.)